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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, December 7 -
December 20

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¶1. (U) SUMMARY: This information is drawn primarily from the
Kazakhstani local press and has not been verified for accuracy.

- Kazakhstan Ready to Negotiate Debt Restructuring
- Banks to Receive Government Assistance by March
- Conservative Scenario for 2009 National Budget
- Economic Statistics
- National Nuclear Center Plans
- Government Proposes Tax Benefits for Oil Companies
- News from Ulba Metallurgical Plant
- Inter RAO Wants to Buy Kazakh Gas
- KazMunayGas Signs Agreements
- Energy Statistics

END SUMMARY.

KAZAKHSTAN READY TO NEGOTIATE DEBT RESTRUCTURING

¶2. On December 9, Kairat Kelimbetov, former head of the
Presidential Administration and current Chairman of the National
Welfare Fund Samruk-Kazyna, said that the state is prepared to
negotiate with foreign investors on the restructuring of Kazakhstani
commercial banks' debt. "If the Government will task us to do so,
we would begin a negotiation process with foreign investment banks
and investors to work out a mechanism for restructuring." According
to Kelimbetov, the total amount of external borrowing of domestic
banks exceeds \$40 billion, a significant portion of which must be
repaid within the next two to three years. Kelimbetov explained
that the government would like to discuss discounts and possible
extensions in the repayment schedule with creditors.

¶3. Commenting on Kelimbetov's statements, the Chairman of the
National Bank, Anvar Saidenov, emphasized that there is no
possibility of default. "We are not talking about someone refusing
to repay debts. This is not a constructive position," he said
during a December 10 press-conference in Almaty. In his opinion,
there will be more opportunities to re-negotiate directly with
investors, as opposed to working through syndicated loans and
Eurobonds. According to Saidenov, of the \$40 billion in total

external debt, about \$21 billion is Eurobond debt.

14. According to Oraz Zhandossov, former Minister of Finance, former Chairman of the National Bank, and now independent economic analyst, recent government statements about the possibility of restructuring foreign debt indicate partial acknowledgement of the eventual likelihood of default. He said that restructuring is indeed necessary to prevent default, and that it would be in the creditors' interests to enter into negotiations.

BANKS TO RECEIVE GOVERNMENT ASSISTANCE BY MARCH

15. According to Samruk-Kazyna Chairman Kelimbetov, the Kazakhstani government plans to complete the transfer of funds (as part of Kazakhstan's financial crisis program) to Kazakhstan's four primary private banks by the middle of March 2009. He noted that KazKommertzBank, BTA bank, Alliance Bank and Khalyk Bank have each signed memorandums of understanding that specify the government's ownership share to be purchased according to the assistance package.

Kelimbetov added that final decisions regarding possible additional funding for each bank will be announced following the results of independent audits to be completed by KPMG and PricewaterhouseCoopers.

CONSERVATIVE SCENARIO FOR 2009 NATIONAL BUDGET

16. The Minister of Economy and Budget Planning Bakhyt Sultanov announced on December 18 that the Government of Kazakhstan may reconsider the national budget for 2009 based on a price of oil of \$25 per barrel. Under that scenario, budget revenue would be reduced by approximately \$1.25 billion and the Prime Minister has

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subsequently tasked ministries to identify programs for which funding can be postponed for the first half of 2009. The Prime Minister noted that "we should plan our expenditures based on the most conservative scenario."

ECONOMIC STATISTICS

17. According to the Financial Supervision Agency (FSA), in January-November 2008, Kazakhstan's commercial banks earned a net profit of 33.8 billion tenge (approximately \$280.2 million), or a 83.7% decrease year-on-year in profit. At the same time, loans since January 2008 have increased by 496.8 billion tenge (about \$4.1 billion) indicating 7.6% growth. Kazakhstani commercial bank loans now total 7,015.8 billion tenge (approximately \$58.15 billion). As of December 1, commercial bank loan portfolios include 42.8% standard loans (39.7% as of January 1, 2008), 53.3% doubtful loans (58.8% as of January 1, 2008) and 3.9% bad loans (up from 1.5% on January 1, 2008.)

PLANS OF NATIONAL NUCLEAR CENTER

18. During a December 12 press conference, Kairat Kadyrzhanov, Director General of the National Nuclear Center (NCC), announced plans to conduct a feasibility study together with Japanese scientists to build a fourth-generation, 50-megawatt, experimental nuclear reactor in Kurchatov (eastern Kazakhstan), and open a Center for Nuclear Medicine and Biophysics in 2011, which will be equipped to diagnose and treat cardiovascular and oncological diseases. Kadyrzhanov also proposed creating a national atomic energy company, which would build and operate nuclear power plants, and a National Agency for Atomic Energy, which would supervise the Committee for Atomic Energy (now under the Ministry of Energy and Mineral Resources), the national atomic company Kazatomprom, and the NCC.

GOVERNMENT PROPOSES TAX BENEFITS FOR OIL COMPANIES

19. On December 12, Finance Minister Bolat Zhamishev told reporters that according to the new tax code effective January 1, 2009, companies paying the rent tax and mineral extraction tax will cease paying the crude export duty. At a December 18 meeting of parliament, Zhamishev said that in January 2009, the Government of

Kazakhstan plans to revise mineral extraction tax rates for low-profit oil fields on a case-by-case basis.

NEWS FROM ULBA METALLURGICAL PLANT

¶10. On December 12, Kazatomprom president Mukhtar Dzhakishev told reporters that Russia declined to place an order for fuel pellets from Kazatomprom subsidiary, Ulba Metallurgical Plant, as expected. "If we lose the Russian market, Ulba will obtain more orders from China and Japan," he commented.

¶11. On December 11, "Khabar" television reported that the Ulba Metallurgical Plant launched a new facility to produce 72.9 tons of tantalum powder a year. This breakthrough project is a part of the state's "30 Corporate Leaders" economic development program.

INTER RAO WANTS TO BUY KAZAKH GAS

¶12. The December 11 "Kursiv" newspaper reported that Inter RAO EES, a subsidiary of Russia's power generating company, signed a one-year memorandum of understanding with Canada's Tethys Petroleum Limited. According to the memorandum, Tethys will sell gas produced by its Kazakhstani subsidiaries to Inter RAO EES and consider other joint projects for the acquisition, exploration, and development of oil and gas fields in Kazakhstan. Inter RAO EES needs gas to supply its gas-fired power plants.

KAZMUNAYGAS SIGNS AGREEMENTS

¶13. On December 5, the national oil and gas company KazMunayGas (KMG) signed an Agreement on Principles with ConocoPhillips and Mubadala Development Company from UAE to develop the Caspian offshore "N block," which contains 1.97 billion barrels of oil in recoverable reserves. KMG also signed an agreement with the

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Kazakhstani investor group "Caspian Tristar" to develop the Caspian offshore field "Myortviy Kultuk," which has 1.2 billion barrels of oil in recoverable reserves, a Cooperation Agreement with BG Group to explore hydrocarbons, and a 30-year contract with the Ministry of Energy and Mineral Resources to explore and develop Urikhtau gas field in Aktobe oblast, with anticipated annual production of 1.5-2 billion cubic meters of gas.

ENERGY STATISTICS

¶14. According to the National Statistics Agency, from January to November, Kazakhstan produced 54.4 million tons of crude oil and 30.24 billion cubic meters of natural gas, an increase of 5.9% and 11.6%, respectively, over the same period in 2007. From January to October, Kazakhstan exported 50.51 million tons of crude oil and gas condensate, valued at \$38.32 billion, which represented a 0.5% decrease in export volume, but (because of higher prices) a 71.7% increase in export value over the same period in 2007. From January to November, Kazakhstan produced 101.14 million metric tons of coal, a 15% increase year-on-year, and generated 72.60 billion kilowatt-hours, an increase of 5.7%.

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